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Impressions of the Financial and Industrial Conditions in Germany¹

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A CORRECT understanding of Germany's problems is essential to the working out of any program for the economic regeneration of Europe. Until I visited Germany I had no realization of the inadequacy of my own conception of conditions in Germany nor how difficult it is for an American, dominated, as most of us are, by the feelings engendered by the war and strong sympathy for the Allies, to approach the consideration of Germany's problems in an impartial and judicial spirit. The nature of the questions that my friends have asked me since my return indicates that I was not alone in my ignorance and prejudices.

During my two visits to Berlin, one at the end of July and the other early in August, I talked not only with many Germans in and out of official life, but also with well-informed foreign residents, including newspaper correspondents, directors of relief organizations and members of the Allied Missions who were dealing with the Germans in enforcing the Treaty of Versailles. I also obtained much information from the Allied experts during the week I spent at Spa, at the suggestion of friends in the Allied Missions to give them my impressions of conditions in Germany as bearing upon the problem of indemnities. My most profitable talks were with Ernest Dresel, the head of the American Commission, other than

whom there is no more intelligent and impartial student of German conditions among the large band of Allied representatives in Germany.

My own direct contact with Germans was, of course, too superficial to give me a fair cross-section of sentiment in Germany; but I am sure that I had the benefit of the honest and impartial opinions of many men who know Germany well and are earnestly endeavoring to reach just conclusions.

What is Germany's attitude toward the Treaty of Versailles?

It is apparent that the German nation does not regard the Treaty of Versailles as morally binding upon it. Even in high circles this view prevails. It is that the Treaty was a violation of the terms of the Armistice, was framed by bitter enemies without giving the German statesmen a hearing, is needlessly unjust and harsh in its terms, and is notoriously incapable of performance. They say it was signed by the German delegates under duress as the only means of obtaining peace, and with full notice to the world that many of its provisions were incapable of enforcement and that the German government and people could not do more than attempt such partial performance as might prove possible. To this attitude, as well as to the undoubtedly fact that many of the provisions of the Treaty are incapable of full performance, may be attributed the

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acknowledged failure of the Allies to enforce the Treaty and of the Germans to live up to its provisions.

The Germans, in their attempts at performance, frankly apply not the provisions of the Treaty but their own conception of the degree of performance that is possible under the unfavorable conditions that confront them—conditions for which they hold the Allies in a great measure responsible. Manifestly, such a vague and unsatisfactory test is productive of infinite misunderstanding and dissatisfaction.

The Treaty ought to be revised, particularly as to its economic provisions; but I am very much afraid that the German statesmen may be reluctant to substitute for the present unenforceable treaty a new one, acceptable to the Allies, that the German government would be compelled to acknowledge as capable of enforcement and, therefore, as morally binding upon it.

Is Germany sincerely and effectively disarming in compliance with the Treaty of Versailles?

To this question I would answer both Yes and No. The consensus of the best informed opinion seems to be that the high officials of the German government are sincerely attempting to carry out the disarmament provisions of the Treaty. The head of the Allied Disarmament Commission told me that all of the numerous reports of the discovery of large accumulations of deliberately hidden war material were pure inventions.

On the other hand, it is conceded, even by the German government officials, that large sections of the German people, and more particularly the officers of the army, have not been loyally coöperating with the government in its disarmament measures; nor does it seem that the government has been

adopting as drastic measures as were necessary to enforce its orders.

It is hard to decide between the official government view that the government has been doing its best in this regard, considering the weakness of its position and the great deterioration in the morale of the German people, and the view of the Allies that the government could have successfully enforced more vigorous measures. As it is, the bulk of the heavy guns, field guns and ordnance material, most of the factories for the production of munitions, and to a considerable extent the fortifications on the western German frontier, have been destroyed in compliance with the Treaty.

The Allied Missions expect that this work of destruction will be substantially complete before the end of the year. Even now there are no factories in Germany fitted for the manufacture of munitions of war and none are being produced. It seems probable that even if it does its best, the German government will be unable to secure the surrender of some hundreds of thousands of rifles which disappeared during the confusion following the Armistice and the Revolution. The fear is that the hidden rifles will be surrendered by the elements of the population that could be trusted to keep them, and will be kept by the disorderly and revolutionary elements.

I have no doubt that, unless the Allies relent, Germany will complete the reduction of her army to 100,000 men, and the decentralization of the imperial police force by the end of the year, and that soon the disarmament of Germany will be as complete as is reasonably possible except for the hidden rifles.

However loyally the government adheres to its renunciation of compulsory military service, it is inevitable that for many years to come there will

be many hundreds of thousands of Germans of military age who received intensive military training during the late war. Nevertheless, it is clear that, even if the German people should again develop the ambition of becoming a warlike nation, it would take them many years to create a new navy and equip a new army which would meet the requirements of modern warfare.

Are the German people really suffering for lack of food?

Unqualifiedly, Yes. While there is sufficient food among the peasants as a class, there is undoubtedly a great shortage of food among the urban and industrial populations. The casual visitor to Berlin or any other large city would receive the impression that there is an abundance of food, but one does not have to go far beneath the surface to find out how much suffering there is. There is little actual starvation, but there is a vast amount of underfeeding in the cities and industrial centers.

The official brief submitted by the German government at Spa stated that "after a temporary improvement during the summer of 1919, the food rations guaranteed to the urban population have decreased once more to only 40 to 60 per cent of the caloric minimum." Even the Allied experts concede that the German people of this class are not receiving more than 65 per cent of the normal supply of food.

The increase in the cost of food is wholly out of proportion to the increase in incomes. The shortage of food is, therefore, especially acute among the people of fixed but limited incomes, such as the small rentiers, teachers, government officials, professional men, former army officers, and students. Their incomes have not materially increased, while the

price of food and other necessities of life have increased from five to ten-fold. Hundreds of thousands of people of this class are suffering acute privation.

The American and English Quakers are supplying at nominal cost one square meal of fifteen hundred calories (about 40 per cent of a full daily ration) to 800 students of the University of Berlin, who before this relief were unable effectually to prosecute their studies because of inadequate nourishment. The same thing is being done in other German universities. The Quakers are also feeding tens of thousands of school children, who through this help are being saved from tuberculosis, rickets and other diseases resulting from malnutrition.

One sees the effect of underfeeding among the people in the streets in the sallow complexions, listless gait and evident lack of vigor. It is estimated that the aggregate weight of the German people is 25 per cent less than before the war. At the Spa conference the Allied experts conceded that one cause, perhaps the principal cause, for the reduction in Germany's output of coal was the reduction in the physical vigor of the miners due to inadequate food, and the Allied Supreme Council, in their own interest, made provision for a fund for increasing the supply of food in the mining districts.

The shortage of food is due not only to reduced production at home and reduced imports, but also, in the case of hundreds of thousands of people, to the enormous increase in prices as measured in the depreciated German currency without any corresponding increase in income. That, manifestly, is a condition that can only be remedied gradually, even if Germany should secure the credits to finance the necessary increase in imports of food.

Is Germany likely to disintegrate territorially?

I think not, provided the Allies give the Germans a reasonable economic chance. The bond that holds Germany together is economic rather than national. The movement for the secession of the Rhine Provinces from the rest of Germany, which is not without support among the people of those provinces, is based on selfish considerations. This movement might succeed if Germany is allowed to drift into economic chaos.

In that event, further territorial disintegration based on selfish considerations and the isolation of Prussia might follow. I have no sympathy with the view that such a disintegration would be in the interest of France. A movement toward reintegration, based on economic needs, would inevitably ensue, and the unrest of the Balkans would extend to Germany. Could any condition be more unsettling for France and Germany's other neighbors?

Is Germany likely to drift into Bolshevism?

My conclusion is No, provided always the Allied nations see to it that Germany is supplied with sufficient working capital, food, raw material and coal to keep her people at work and keep them from despairing of their future. Several prominent Germans, with whom I talked, thought that the German government had rather over-worked the threat of Bolshevism in urging their economic needs upon the Allies.

All classes, except the Communists and extreme Socialists, are opposed to the Soviet form of government. For this reason, well-informed people do not share the fear so prevalent in Allied countries that Germany will espouse the cause of the Soviet government in

Russia and aid in the spread of Russian Bolshevism to injure the Allies and more particularly the British Empire.

No one with whom I talked feared Bolshevism, provided the German people can be kept reasonably busy. If, however, there should be wholesale unemployment, acute privation bordering on starvation and despair would be inevitable. Then no one could tell to what extremes a desperate and starving people might be driven. The Germans are industrious people, and as a rule they are anxious to work. I think the remedy against Bolshevism in Germany is largely in the hands of the Allies.

Is Germany likely again to adopt a monarchical or imperial form of government?

The consensus of opinion among those with whom I talked is that this is highly improbable, except possibly as a reaction after a period of Bolshevism or some other form of radical misrule. The indications are that a substantial majority of the German people favor a republican form of government. Even if there were a strong movement the other way, the difficulty in agreeing upon a reigning house would be a deterrent. The Kaiser and the Crown Prince and the rest of the Hohenzollerns are unpopular even in Prussia. South Germany would be loath to accept a Hohenzollern monarch, while the Prussians would object to a Saxon or a Bavarian on the imperial throne. On the whole, my impression is that the dangerous political tendencies in Germany are in the direction of radicalism rather than imperialism. Several thoughtful Germans with whom I talked regret that the Allies have not seen the importance of doing more than they have done to support a moderate republican govern-

ment, thus reducing the danger of extreme movements in the direction of either radicalism or imperialism.

Will Germany be able to pay a large indemnity to the Allies?

The answer to this question depends upon the answer to the next question, which is as to the ability of Germany to achieve financial and economic recovery. The assets that the Allies have already received from Germany by way of indemnity are valued by the Germans at about \$5,000,000,000 in gold. The Allies would value them at less. It is conceded that further substantial payments can only be made through the exported products of German industry in excess of German imports.

What is possible in that direction is problematical. It will depend upon the extent to which Germany accomplishes her economic and financial recovery, and that in turn will largely depend upon the attitude and coöperation of the Allies and the other nations of the world.

Two things are certain: One is that, at best, the amount of the indemnity payments that Germany can make, even over a long period of years, will fall far below the just expectations of France and Belgium. The other is that the Allies' best chance of securing further indemnity payments is to make them so moderate that the German people will feel that the burdens of payment are less to be feared than the consequences of default.

Of the important Allied nations, France and Belgium are the only ones that are counting on indemnities. Great Britain and Italy doubtless hope for indemnities, but they are making no provision for them in their plans for the future.

Can Germany recover from the financial and economic distress into which she has been plunged by the war and the enforcement of the Treaty of Versailles?

My answer to this question is, Yes, with the help of the Allies. The answers I have already given indicate the extent to which Germany is at the mercy of the Allies and how her economic future is dependent upon their help and coöperation. Germany's economic condition today is very bad. She has lost about two-thirds of her iron and about one-third of her coal. Her soil, never as rich as that of France and Belgium, has been impoverished by the lack of artificial fertilizers. The territory she lost produced a surplus of food for the rest of the Empire. For many years to come the proportion of imported food and raw materials as compared with that produced at home will be considerably greater than it was before the war. Germany has lost practically all of her ocean-going ships and therefore has difficulty in finding employment for the considerable part of her population that was exclusively or chiefly dependent upon her merchant fleet. The efficiency of the next generation of men and women will be reduced because of the under-feeding of the children of today. Germany has lost the bulk of her foreign investments and working capital. Even with the help of the Allies, the markets of the world will be less favorable to Germany than they were before the war. Germany's most promising market is Russia, and her economic future in great measure is dependent on the reopening of that market.

Germany's financial position is, if anything, more serious than her economic position. Her currency has been inflated to about ten times its prewar volume. It no longer has any appreciable cover in gold or other

assets. The German mark is worth less than 10 per cent of its value in gold, with little chance of improvement in the near future, in view of the certainty that the government will for a considerable period have to issue large amounts of additional currency to provide for urgent needs that cannot be covered by taxation and loans.

The aggregate public debt of Germany is almost 200,000,000,000 marks. Whether or not Germany has, almost reached the limit of taxation, as her experts contend, the present burden of taxation is undoubtedly very heavy. The income from taxation does not fully provide for the current expenses of government, which are estimated at about 25,000,000,000 marks a year, as compared with the prewar expenditure of less than one-sixth of that amount, to say nothing of the considerable losses on the state railway, postal, telegraph and telephone services, the enormous cost of the Allied armies of occupation which Germany must pay, and the contemplated indemnity payments.

The colossal proportions of the indemnity problem will appear from the fact that to make annual sinking fund and interest payments of 6 per cent upon an indemnity obligation of \$10,000,000,000 would involve doubling the present burden of taxation.

If I depended entirely upon the processes of logic I should say that it would be impossible for Germany to avoid national bankruptcy, just as one would have said at the outbreak of the war that it would have been impossible for the nations of the world to raise in four years more than \$150,000,000,000 for the prosecution of a devastating European war. I reach the opposite conclusion because the economic world has a way of defying logic and of finding means to meet the demands made upon it.

My guess, therefore, is that the German nation will work out their economic and financial salvation, provided they receive reasonable coöperation from the Allies and the rest of the world. The principal reason for this answer is found in my reply to the next question.

Have the German people lost heart?

Decidedly No. They impressed me as being surprisingly energetic and hopeful, considering that they had come out of the most devastating war in history a defeated and humiliated nation and were facing the terrific economic handicap imposed by the war and the Treaty of Versailles. They impressed me as willing to work hard if given the chance. Why should Germany lose heart? Her chief assets are unimpaired. They are the energy, enterprise, high technical skill, organizing ability and patience of her people.

What is the standing of the present German government at home and abroad?

The present German government is distinctly a moderate Bourgeois government. It is regarded by the Allied government as the strongest in point of character and ability that has been in power since the war. Chancellor Ferenbach and Foreign Minister von Simons made an excellent impression at Spa. It is an open secret that the governments of Great Britain, France and Italy hope the present government will remain in power. I think there is a growing realization in Allied circles that too little has been done by the Allied governments to help build up a moderate government in Germany which could effectively counteract both imperialistic and radical tendencies.

On the other hand, the present government is handicapped by the weakness of its parliamentary position.

It is made up from the three center or moderate parties, the People's Party, the Liberal Party and the Catholic Party, which together control only about 40 per cent of the votes in the Reichstag. It, therefore, must depend for its majority either upon the party of the extreme right, with about 15 per cent of the votes of the Reichstag, or upon the two Socialist parties, which about equally divide the remainder of the votes.

Thus far the majority Socialists—the more conservative of the two wings of the Socialist Party—although refusing representation in the government, have supported it. The government also seems to be dependent on the good graces of Herr Stinnes, a great industrial leader and the “boss” of the People's Party, the most powerful of the three center parties directly represented in the government. At Spa, Herr Stinnes proved himself to be a troublesome recalcitrant, but he seems to be supporting the government in its effort to carry out the Spa agreement for the delivery of 2,000,000 tons of coal a month for the rest of the year.

What should be the policy of the Allies towards Germany?

If the impressions I have formed are correct, the fate of Germany is in large measure in the hands of the Allied nations and the United States. In the camp of her enemies there is now a struggle between two conflicting policies—one a policy of destruction, the other a policy of coöperation.

The advocates of the policy of destruction believe that the breaking up of Germany should be encouraged and her restoration to industrial and commercial prosperity impeded. That is a perfectly logical policy, if we accept the premises on which it is based, namely; a shattered and disorganized Germany will be less of a

menace to the peace and happiness of the world than a united and prosperous Germany, and that the crimes for which the German people must bear their full share of responsibility justify the condemnation of future generations of Germans to a cruel fate, simply for the greater assurance of the peace and happiness of other nations.

Both these premises have already been rejected by public opinion in Great Britain and Italy. I believe they will be rejected by the enlightened public opinion in the United States and France. The policy of destruction is bound to bring interminable trouble to the rest of Europe. Putting first, as is just, the interests of France and her Allies, I believe that the best chance for the peace of the world lies in the policy of coöperation—in the Allies and the United States helping Germany to remain a united nation and to regain her prosperity.

This policy is not without its perils. The Prussian nature has not changed and it will not change over night. The German nation have earned the distrust and resentment of the civilized world. They have surrounded themselves by a wall of hate that it will be difficult to break down. They must expect to give hostages for their good behavior and by their conduct to convince the Allies that they can be trusted to use prosperity and economic power for peaceful ends. They must effectively disarm and acquiesce in all proper measures for the military protection of France. They must be required in good faith to do their utmost in making reparation to France and her Allies in accordance with the Treaty. They must be made to understand that the civilized world will not permit France to be the victim of any new German aggression.

The policy of coöperation undoubt-

edly involves the risk of an economically strong Germany again developing military ambition, seeking new alliances and threatening the peace of the world. That is a real risk. I have no doubt that if I were a Frenchman I would fear it as the French do. But I believe that this risk is less to be feared

than the certainty of trouble which the policy of destruction would entail. It can be minimized by serious efforts to create such a world sentiment and such international machinery for the preservation of peace that Germany would not again dare to provoke another European war.